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The Budget in Brief 2005



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Minister of Finance

February 23, 2005

Canada



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Delivering on Commitments

The
Budget in Brief
2005



Department of Finance
Canada

Ministère des Finances
Canada



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Budget 2005—Delivering on Commitments

Introduction

Budget 2005 presents a balanced strategy to build a 21st century economy that will improve the well-being of all Canadians. A productive, growing economy creates jobs, boosts incomes, and supports investments in the quality of Canadian life, and gives us the means to meet our global responsibilities and seize global opportunities.

There are four key drivers that will increase Canadians' well-being and ensure that our citizens can achieve their goals:

- A robust economy.
- Secure social foundations.
- A sustainable environment.
- A sound fiscal framework.

With the proper policy framework, these four drivers operate as a "virtuous circle," with each element strengthening and reinforcing the others to foster environmentally sustainable growth and an improving quality of life for Canadians. For example:

- A robust economy provides resources for increased investments to meet social and environmental objectives.
- A secure society that invests in health and education provides the opportunities and the confidence for all Canadians to participate in the economy, contributing to a better standard of living.
- An environmentally sustainable economy improves the health of Canadians today, safeguards—and reduces costs for—future generations, and provides innovative opportunities to enhance the competitiveness of business.
- Maintaining a sound fiscal framework supports the economy while still providing the Government with the resources to help address economic, social and environmental priorities of Canadians.

Budget 2005 incorporates all of these elements while maintaining a balanced budget, and setting aside additional resources for debt reduction and to deal with unforeseen economic shocks.

The Government has made several commitments to Canadians:

- To secure Canada's social foundations.
- To implement policies that support a productive and growing economy.
- To develop a green economy and sustainable communities.
- To meet Canada's global responsibilities.
- To maintain a sound fiscal framework.

Budget 2005 delivers on these commitments.

Highlights

Economic Developments and Prospects

- Canada has achieved an outstanding fiscal turnaround since the early 1990s. This, combined with low and stable inflation, has enabled the economy to better weather economic shocks.
- Exceptionally strong employment growth (the highest in the Group of Seven) and improved productivity growth have given Canada the fastest rate of increase in living standards among G-7 countries since balancing the budget in 1997.
- The Canadian economy grew at a solid pace in the first three quarters of 2004, thanks to consistent growth in final domestic demand. Real gross domestic product (GDP) advanced 2.7 per cent in the first quarter before strengthening to 3.9 per cent in the second and 3.2 per cent in the third.
- Since the end of 2002, the Canadian dollar has appreciated more than 25 per cent against the U.S. dollar. On a trade-weighted basis, the Canadian dollar has risen more than any other major floating currency. Adjusting to this rapid appreciation is a major challenge for Canadian exporters.
- Private sector forecasters expect somewhat weaker near-term economic growth than previously anticipated. When surveyed in December by the Department of Finance, the forecasters expected growth to be 2.9 per cent in 2005, down from 3.2 per cent in the November 2004 *Economic and Fiscal Update*. For 2006, they expect growth of 3.1 per cent, unchanged from the November Update.
- Despite the still-encouraging growth outlook for the Canadian and global economies, there remain significant risks.
- In the near term, the large and persistent U.S. current account deficit presents a key risk. This imbalance could result in a further depreciation of the U.S. dollar against all major currencies, including the Canadian dollar. The speed at which the economy adjusts to an appreciation of the Canadian dollar and the magnitude of the adjustment are also uncertain.

- Over the medium term, the U.S. budget deficit remains the principal downside risk. If not corrected, the deficit could put upward pressure on interest rates, crowd out business investment and dampen growth in both the U.S. and Canada. Conversely, a serious effort to reduce the budget deficit could temporarily lower growth in the U.S., which would also negatively affect Canadian growth.
- While the risks to the outlook are negative on balance, a strong macroeconomic framework has improved Canada's ability to deal with these risks should they materialize.

Securing Canada's Social Foundations

- The 2004 10-Year Plan to Strengthen Health Care set out a commitment by all governments to improve access and reduce wait times. In support of the plan, the Government of Canada committed \$41.3 billion over the next 10 years in new federal funding for provinces and territories.
- A new framework will be established for Equalization and Territorial Formula Financing providing \$33.4 billion more over 10 years than the annual amounts for 2004–05 estimated in Budget 2004.

Health Care

- Budget 2005 provides \$805 million over five years to deliver on the Government's commitment to invest in health care in direct federal support in the following areas:
 - Health human resources.
 - Healthy living and chronic disease prevention.
 - Pandemic influenza preparedness.
 - Drug safety.
 - Environmental health.

Tax Changes to Improve Fairness and Support Participation

- Budget 2005 makes the tax system fairer by:
 - Acting on the recommendations of the Technical Advisory Committee on Tax Measures for Persons with Disabilities.
 - Doubling, to \$10,000, the maximum amount of medical- and disability-related expenses that caregivers can claim on behalf of their dependants, beginning with the 2005 taxation year.
 - Introducing a non-refundable tax credit to recognize specified adoption expenses, up to a maximum of \$10,000, effective for the 2005 tax year and beyond.

Improving Support for Seniors

- To address the evolving needs of seniors:
 - Guaranteed Income Supplement benefits for low-income seniors will be increased by \$2.7 billion over five years as a result of increases in monthly benefits of \$36 for singles and \$58 for couples by January 2007.
 - Funding for the New Horizons for Seniors program will be increased from \$10 million to \$25 million a year to promote voluntary sector activities by and in support of seniors.

Strengthening Aboriginal Communities

- The Government of Canada is committed to a renewed partnership with Aboriginal people and has initiated a Canada-Aboriginal Peoples Roundtable process that will be completed later this year.
- Budget 2005 invests \$735 million over the next five years, in addition to the \$700 million over five years for Aboriginal health programs announced in September 2004, to address urgent needs, with a focus on children, youth and their families, including:
 - \$345 million over the next five years for First Nations early learning and child care, special education, and child and family services.
 - \$340 million over the next five years for First Nations housing on reserves, Aboriginal languages and culture, and the Aboriginal Healing Foundation.

Supporting Canada's Heritage

- In support of culture, diversity and sport, Budget 2005:
 - Commits an additional \$688 million for the Tomorrow Starts Today art and culture package that builds on earlier investments and extends the initiative for a full five years.
 - Invests \$171 million over five years to celebrate Canada and to help Canadian diversity find its voice in communities across the country.
 - Provides \$70 million a year to Sport Canada, doubling its ongoing funding to \$140 million in 2005–06 from \$70 million in 2004–05.

Justice Framework

- Budget 2005 provides funding for measures that will help address the social origins of crime and victimization in Canada, and to ensure that war criminals do not find safe haven in Canada.

A Productive, Growing and Sustainable Economy

Investments in Canadian Capabilities

Investing in People

Building on investments made by the Government of Canada in recent budgets, Budget 2005 makes significant strategic investments in building a highly skilled and adaptable workforce.

- \$5 billion over five years to start building a framework for an Early Learning and Child Care initiative in collaboration with provinces and territories.
- An additional \$120 million over five years to improve the Special Education Program for First Nations children living on reserve.
- \$398 million over the next five years to enhance settlement and integration programs and improve client services for newcomers to Canada.
- \$125 million over the next three years for next steps for the Workplace Skills Strategy.
- \$30 million over three years to the National Literacy Secretariat.

Investing in Ideas and Enabling Technologies

Budget 2005 makes major strategic investments in building a world-class research environment in Canada through measures such as:

- \$375 million over five years for the three federal research granting councils.
- \$165 million to Genome Canada to sustain its support for breakthrough genomics research.
- \$126 million over five years to support groundbreaking research in particle physics at the University of British Columbia's TRIUMF science facility.
- \$75 million over five years to help meet the indirect costs of federally supported research at hospitals and universities.

Investing in Regions and Sectors

Budget 2005 helps strengthen the economies of Canada's regions through initiatives, including:

- Increased funding of \$800 million for regional economic development agencies in Atlantic Canada, Western Canada, Quebec and Northern Ontario.
- \$120 million towards the development of a comprehensive Northern Strategy for economic development.
- Additional investments in key sectors of Canada's economy such as agriculture and space.

Economic Policy Framework

A Fair and Competitive Tax System

Budget 2005 reduces taxes for individuals—especially low- and modest-income Canadians. It will also promote economic growth by making Canada's tax system more efficient and competitive. Under the measures set out in the budget:

- The amount of income that all Canadians may earn without paying federal income tax will increase to \$10,000. 860,000 taxpayers will be removed from the tax rolls, including about 240,000 seniors.
- RRSP annual contribution limits will be increased to \$22,000 and corresponding increases made for employer-sponsored registered pension plans.
- The corporate surtax will be eliminated and the 21-per-cent general corporate income tax rate will be reduced to 19 per cent, maintaining our tax rate advantage relative to the U.S.
- Capital cost allowance rates will be better aligned with the useful life of assets.

More Efficient and Effective Markets

To improve Canada's business climate, Budget 2005 commits the Government to:

- Eliminate the 30-per-cent foreign property limit on pension investments.
- Increase deposit insurance coverage to \$100,000 from \$60,000.
- Consult with Canadians on refinements to the legislative framework for the financial sector to improve consumer protection and promote greater efficiency.
- Work with the provinces and territories to reach an agreement by year-end on an enhanced system of securities regulation.
- Introduce regulatory reforms and other initiatives that will advance Canada's record of strong economic growth and job creation.

Moving Toward a Sustainable Environment and Sustainable Communities

Ensuring a Sustainable Environment

In Budget 2005, the Government of Canada is making major investments to preserve our natural environment and to address climate change. These investments, totalling over \$5 billion over the next five years (including over \$3 billion of new funding), include:

- \$1 billion for an innovative Clean Fund to further stimulate cost-effective action to reduce greenhouse gas emissions in Canada.
- \$225 million to expand the successful EnerGuide for Houses Retrofit Incentive program for Canadians.
- \$200 million to support the development of a Sustainable Energy Science and Technology Strategy.
- \$200 million over five years and a total of \$920 million over 15 years to further stimulate the use of wind power to generate energy. This delivers on the Government of Canada's commitment to quadruple the Wind Power Production Incentive.
- \$97 million over five years and a total of \$886 million over 15 years to stimulate the development and use of forms of renewable energy other than wind, such as small hydro, biomass and landfill gas.
- An estimated \$295 million in enhanced tax incentives through accelerated capital cost allowance (CCA) to encourage investment in efficient and renewable energy generation and establishing that new accelerated CCA will only be considered for investments in green technology.
- \$300 million provided to enrich the Green Municipal Funds, which make investments in innovative green municipal projects. Half of this amount will be targeted to the cleanup of brownfields.
- \$85 million to fund strategic investments to minimize the risk of invasive alien animal and plant species damaging our environment and economy.

- \$40 million to improve the ecological integrity of the Great Lakes ecosystem.
- \$28 million over two years to preserve the health of Canada's oceans. \$15 million per year ongoing to ensure the conservation of our fisheries in the Northwest Atlantic.
- \$90 million to support scientific assessments and research under the Canadian Environmental Protection Act, which will help reduce the exposure of Canadians to potentially harmful substances.
- \$209 million for the maintenance and acquisition of capital assets in national parks and \$60 million to restore the ecological integrity of parks.

Delivering on a New Deal for Cities and Communities

Budget 2005 delivers on the Government of Canada's commitment to provide cities and communities with long-term, reliable sources of funding to meet their needs. Specifically, the Government commits to:

- Implement its pledge to share \$5 billion worth of gas tax revenue over the next five years:
 - In 2005–06, the share of the federal gas tax dedicated to cities and communities will be \$600 million.
 - By 2009–10, the share will increase to \$2 billion, representing 5 cents per litre.
- Renew federal infrastructure programs such as the Canada Strategic Infrastructure Fund and the Municipal Rural Infrastructure Fund, which invest more than 50 per cent of funding toward sustainable infrastructure.

The gas tax sharing, the goods and services tax (GST) rebate implemented in Budget 2004 and the Green Municipal Funds (referenced above) will provide Canadian communities with over \$9 billion over the next five years.

Meeting Our Global Responsibilities

International Assistance

- An increase of \$3.4 billion over the next five years for international assistance with the goal of doubling assistance by 2010–11 from its 2001–02 level.
- Double aid to Africa by 2008–09 from its 2003–04 level.
- \$172 million for a new Canadian debt relief initiative for the world's poorest countries plus an additional \$34 million contribution to the Heavily Indebted Poor Countries (HIPC) debt relief initiative.
- \$425 million to support the immediate humanitarian response to the tsunami disaster and long-term reconstruction, including approximately \$200 million to match donations made by individual Canadians.
- \$342 million in additional funding to combat diseases in developing countries. This includes funds for The Global Fund to Fight AIDS, Tuberculosis and Malaria, the Global Alliance for Vaccines and Immunization (GAVI), and the Global Polio Eradication Initiative, with the goal of eradicating polio worldwide in 2005.
- A new approach for international assistance funding designed to better deal with diverse international commitments and unforeseen events, while providing greater stability to core spending.

Foreign Policy

- \$500 million over five years to fund global peace and security initiatives, from the \$3.4-billion increase in international assistance, to promote international security.
- \$42 million over five years for increasing the diplomatic staff of Canada's diplomatic missions abroad to strengthen our capacity to pursue a more engaged foreign policy and to represent Canada's interests more effectively.
- \$59 million to address the most pressing security needs at Canadian diplomatic missions abroad.

Defence and Security

- Over \$12 billion in new money for defence (\$7 billion in budgetary funding) over five years—the largest increase in a five-year period in the last 20 years.
- Delivers on the Government's commitment to expand the Canadian Forces (the Forces) by 5,000 troops and the reserves by 3,000.
- Important investments in the operational sustainability of the Forces.
- More than \$2.5 billion for new medium capacity helicopters, utility aircraft, military trucks and specialized facilities.
- \$3.8 billion for capital and other projects to support new roles for the military identified in the upcoming defence policy review.
- \$1.0 billion over five years in support of key national security initiatives.

Trade and Investment

- A renewed commitment to enhance our presence in fast-growing emerging markets, while strengthening our access to North American markets.
- New support for enhanced science and technology cooperation with other countries.

Sound Financial Management

- The Government is committed to sound financial management, including delivering balanced budgets or better through prudent budget planning, reducing the burden of the federal debt, and improving expenditure efficiency and oversight.
- After accounting for the fiscal impact of proposed new initiatives, Budget 2005 projects balanced budgets or better in 2004–05 and in each of the next five fiscal years. 2004–05 will mark the eighth consecutive balanced budget achieved by the Government of Canada, the first time this has happened since Confederation. According to the Organisation for Economic Co-operation and Development (OECD), Canada was the only Group of Seven (G-7) country to record a total government budget surplus in 2004, for the third consecutive year, and is projected to be the only country in surplus again in 2005 and 2006.
- The 2005 budget maintains the annual \$3-billion Contingency Reserve. It also includes an additional amount for economic prudence to provide greater assurance that the balanced budget targets will be met. If not needed, the amounts set aside for economic prudence will be released to fund government priorities. The Contingency Reserve—if not needed to deal with unforeseen circumstances—will go each and every year to reduce the federal debt (accumulated deficit).
- This budget reaffirms the Government’s objective set out in the 2004 budget to reduce the federal debt-to-GDP (gross domestic product) ratio to 25 per cent by 2014–15. As a result, debt-servicing costs will absorb a smaller share of revenues, placing the Government in a better position to deal with the fiscal pressures of an aging population.
- The federal debt (accumulated deficit) as a percentage of GDP is projected to fall to 38.8 per cent in 2004–05, down from its peak of 68.4 per cent in 1995–96. With the commitment to balanced budgets in each of the next five fiscal years, and based on the average private sector forecast for nominal GDP growth, it is estimated that the federal debt-to-GDP ratio will decline to about 30.6 per cent in 2009–10.

- Five-year projections are presented in this budget. This is for greater transparency, reflecting the fact that the vast majority of the commitments made in this budget extend beyond the traditional two-year budget horizon.
- The Cabinet Committee on Expenditure Review (ERC) has identified cumulative savings totalling almost \$11 billion over the next five years. These savings have been reinvested in core responsibilities of the Government. The work of the ERC constitutes a significant first step toward a culture of ongoing reallocation and is complemented by other measures to improve financial accountability and management.
- The federal revenue-to-GDP ratio is projected to decline from 15.3 per cent in 2003–04 to 14.5 per cent by 2009–10, reflecting one-time revenue gains last year as well as the impact of the tax reduction measures announced in this and previous budgets.
- The ratio of program expenses to GDP will increase to 12.2 per cent in 2004–05, reflecting the substantial increase in transfers to provinces for health care and Equalization. For the remainder of the planning period, the ratio is projected to be 11.9 per cent.

Table 1
Initiatives Included in 2004 Fall Update

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
	(millions of dollars)						
10-Year Plan to Strengthen Health Care ¹	5,750	2,595	2,380	2,303	2,634	3,242	18,905
Equalization/Territorial Formula Financing framework	1,454	1,590	2,042	2,508	2,992	3,493	14,080
Additional BSE (bovine spongiform encephalopathy)	311	187	24	12	12		544
Other	40	35	73	61	42	42	294
Total	7,555	4,407	4,519	4,884	5,680	6,777	33,824

¹ Adjusted for impact of accounting for Wait Times Reduction Fund in 2004-05.

Table 2*Budget 2005 Initiatives*

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
	(millions of dollars)						
Securing Canada's Social Foundations							
Additional federal health investments		100	152	174	189	190	805
Tax fairness	5	62	62	72	72	82	355
Seniors		89	439	718	746	773	2,765
Strengthening Aboriginal communities	40	142	187	102	82	82	635
Supporting Canada's heritage		379	309	303	299	327	1,616
Strengthening the justice framework			51	51	21	21	193
Total cost	45	823	1,200	1,419	1,408	1,474	6,369
A Productive, Growing and Sustainable Economy							
Investing in people	700	73	817	1,343	1,303	1,331	5,567
Investing in ideas and enabling technologies	235	111	119	122	114	111	811
Investing in regions and sectors	120	365	386	422	445	403	2,141
A fair and competitive tax system	15	187	557	1,152	4,301	6,556	12,768
More efficient and effective markets			5				5
Total cost	1,070	740	1,879	3,039	6,162	8,401	21,292
Moving Toward a Sustainable Environment and Sustainable Communities							
Ensuring a sustainable environment	300	586	657	1,010	1,065	1,165	4,783
Investments in communities: gas tax		600	600	800	1,000	2,000	5,000
Total	300	1,186	1,257	1,810	2,065	3,165	9,783
Less amounts earmarked in previous budgets		470	550	750	250	200	2,220
Total cost	300	716	707	1,060	1,815	2,965	7,563
Meeting Canada's Global Responsibilities							
International assistance	711	100	368	657	970	1,307	4,113
Strengthening National Defence		500	600	1,100	2,125	2,675	7,000
Ensuring the security of Canadians		179	204	209	206	211	1,009
Strengthening the capacity of the Foreign Service			13	15	18	18	82
Setting new trade and investment priorities			4	4	4	4	20
Total	711	796	1,190	1,988	3,323	4,215	12,224
Less amounts earmarked in 2004 fall Update			268	557	870	1,207	2,901
Total cost	711	796	923	1,431	2,453	3,008	9,323
Other	903	367	551	951	801	776	4,349
Total spending and tax initiatives	3,029	3,442	5,260	7,900	12,640	16,623	48,895
Less ERC savings available for budget initiatives	-287	460	937	1,661	2,064	2,219	7,054
Total net cost of initiatives	3,316	2,982	4,323	6,239	10,576	14,404	41,841

Table 3
Initiatives Since Budget 2004

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
(millions of dollars)							
Securing Canada's Social Foundations							
10-Year Plan to Strengthen Health Care ¹	5,750	2,595	2,380	2,303	2,634	3,242	18,905
Additional federal Health investments		100	152	174	189	190	805
Equalization/Territorial Formula Financing framework	1,454	1,590	2,042	2,508	2,992	3,493	14,080
Tax fairness	5	62	62	72	72	82	355
Seniors		89	439	718	746	773	2,765
Strengthening Aboriginal communities	40	142	187	102	82	82	635
Supporting Canada's heritage		379	309	303	299	327	1,616
Strengthening the justice framework			51	51	21	21	193
Total cost	7,249	5,008	5,622	6,230	7,034	8,209	39,353
A Productive, Growing and Sustainable Economy							
Investing in people	700	73	817	1,343	1,303	1,331	5,567
Investing in ideas and enabling technologies	235	111	119	122	114	111	811
Investing in regions and sectors	431	552	410	434	457	403	2,686
A fair and competitive tax system	15	187	557	1,152	4,301	6,556	12,768
More efficient and effective markets			5				5
Total cost	1,381	927	1,903	3,051	6,174	8,401	21,837
Moving Toward a Sustainable Environment and Sustainable Communities							
Ensuring a sustainable environment	300	586	657	1,010	1,065	1,165	4,783
Investments in communities: gas tax		600	600	800	1,000	2,000	5,000
Total	300	1,186	1,257	1,810	2,065	3,165	9,783
Less amounts earmarked in previous budgets		470	550	750	250	200	2,220
Total cost	300	716	707	1,060	1,815	2,965	7,563
Meeting Canada's Global Responsibilities							
International assistance	711	100	368	657	970	1,307	4,113
Strengthening National Defence		500	600	1,100	2,125	2,675	7,000
Ensuring the security of Canadians	179	204	209		206	211	1,009
Strengthening the capacity of the Foreign Service		13	15	18	18	18	82
Setting new trade and investment priorities		4	4	4	4	4	20
Total	711	796	1,190	1,988	3,323	4,215	12,224
Less amounts earmarked in 2004 fall Update			268	557	870	1,207	2,901
Total cost	711	796	923	1,431	2,453	3,008	9,323
Other	943	402	624	1,012	843	818	4,643
Total spending and tax initiatives	10,584	7,849	9,779	12,784	18,320	23,401	82,719
Less ERC savings available for budget initiatives	-287	460	937	1,661	2,064	2,219	7,054
Total net cost	10,871	7,389	8,842	11,123	16,256	21,182	75,665

¹ Adjusted for impact of accounting for Wait Times Reduction Fund in 2004-05.

